CUSTOMER AND CONSUMER PANEL MEETING MINUTES

<table>
<tr><td>Date: Thursday 19 November 2015</td><td>Start time: 1pm</td><td>Finish time: 4pm</td><td>Venue: Whittaker Room, 33 Harold Street, Virginia Queensland 4014</td><td>Meeting no: Three</td></tr>
<tr><td colspan="2">Chair/facilitator: Gerard Reilly (Powerlink, in absence of Amanda Newbery, Articulous)</td><td colspan="3">Minutes: Caroline Back (Powerlink), Nicole Maguire (Powerlink)</td></tr>
<tr><td>Attendees:
Michele Price (Energex)
Jane Schober (Ergon Energy)
Andrew Barger (Queensland Resources Council)
Andrew Lewis (Energy Networks Association)
Mark Grenning (Energy Users Association Australia)
Mark Tucker-Evans (Council of the Ageing)
Stewart Bell (Powerlink)
Jenny Harris (Powerlink)
Simon Taylor (Powerlink)</td><td colspan="2">Apologies:
John Gardner (CSIRO)
Julia Mylne (Chamber of Commerce and Industry Qld)
David Hiette (BMA)
Peter Maher (St Vincent de Paul)
Robyn Robinson (Council of the Ageing)
Ruth Wade (Qld Farmers' Federation)
Erin Bledsoe (QGC)</td><td colspan="2">Powerlink presenters:
Paul Reynolds
Gary Edwards
Ian Lowry
Jenny Harris
Gerard Reilly</td></tr>
<tr><td colspan="5">Attachments will include all documents provided to panel members at the meeting including:
PowerPoint presentation and pre-reading documents</td></tr>
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Item	Discussion	Action	Due date	Who
1.	**Welcome to Powerlink – Gerard Reilly, Group Manager Stakeholder Relations**			
2.	**Introductions and meeting agenda – Gerard Reilly**			
3.	**Depreciation update – Paul Reynolds, Revenue Reset Stream Leader** Update on depreciation including: 1. Desired outcomes from depreciation 2. AER's current approach 3. Current and future conditions 4. Alternate depreciation approaches 5. Powerlink's approach **Discussion** C: Depreciation is a complex issue – can't be addressed in its own right. R: Powerlink is seeking feedback and wanting to engage more broadly to find a solution that is equitable across the industry. R: Powerlink needs to think about what can be done in this environment to try and mitigate some of our risks e.g. stranded assets. R: Not saying the options presented are the panacea for these issues – just putting up options for consideration and discussion. R: For the Revenue Proposal, Powerlink proposes to continue with the AER's current approach to depreciation. We think changes in the approach to depreciation need to be consulted on much more broadly and need input from the regulator, businesses and consumer groups. Powerlink wanting feedback on two specific questions. Inform our future processes and thoughts. Questions in the depreciation note:			

1. How much value do you place on the user pays principle and the longer term stability of electricity price?

2. In an environment of static or declining transfer of electricity over the transmission network, what is the most appropriate depreciation approach for regulatory purposes for Powerlink to use for the long term interests of consumers and why?

Comments (C), questions (Q) and Powerlink response (R)

Q: What is Powerlink's definition of user pays?
How does it relate to cost reflective network pricing?

[Discussion about whether Powerlink was interested in users pay or user pays. Specifically whether all users collectively ensure that they pay for Powerlink (users pay) versus each user bearing the costs they create (user pays). Powerlink preference for users pay. Panel's preference was more for user pays].

R: User pays is aligning the cost of the network to the users at that time - *aligning return of capital with utilisation of network*. It is similar to cost reflective pricing and is about not burdening the future users.

Q: Follow up questions regarding how cost reflective pricing and user pays are similar.

C: Concerns raised that Powerlink only interested in total depreciation and consumers could be left with network that won't be fully utilised.

C: Disagrees that the AER's depreciation approach is predicated on a high demand growth environment.

C: Comments on the distribution networks. Changes have been made in this space in-line with long run marginal cost.

	C: Note that the pricing rules for transmission currently require locational Transmission Use Of System (TUOS) to be calculated using a cost-reflective network pricing methodology. C: My view is user pays principle implies cost reflective network pricing. To me this means marginal cost pricing. Q: What happens in 20 years when electric vehicles are everywhere and network utilisation goes through the roof? Does changing the depreciation model now impact what happens later? R: We don't have an answer for that yet but if there is a change today, we need to figure out what is the impact? Q: Risk of those still impacted at peak times. People are using solar but still putting on their air conditioning at night, when their solar is doing nothing. If you're concerned about people dropping off in their use of the grid – then change to cost reflective pricing now. Is there option to allocate more to peak times and this be reflected in user pays? C: The greater need is to change pricing policy not depreciation. C: If we cannot get truly cost reflective network prices, there should be no indexation of Regulatory Asset Base (RAB). C: Needs to be a lot of robust discussion going forward. [The discussion was not conclusive, and the panel agreed to return to these issues at a later date.]			
	Service Target Performance Incentive Scheme (STPIS) update – Gary Edwards, Revenue Reset Stream Leader			

	Update on STPIS including: • Description of STIPS & components • Version changes • Key messages Q: Questions raised around how you know if customers value the improved service and reliability. R: We do know that reliability is something they value. The AER consults on its STPIS schemes and provides the opportunity for customers to provide input, including consumer advocates. The AER has also contacted customers directly in the past on STPIS matters. [Panel noted this was a pretty distant consultation process which is well removed from a typical electricity consumer in Queensland]. Q: How much did Powerlink earn/lose over the last few years through STIPS? R: About $35 million in this regulatory period so far. C: That allows you to collect up to $35 million in additional revenue doesn't it? Who pays for that? Customers do. R: Yes the regulatory arrangements allow us to recover any bonuses or pay any penalty through prescribed transmission charges. R: If you get a higher bill you should expect a higher reliability. Our past good performance makes the next period's targets higher – to make it tougher on us to get a bonus. C: Questions raised on the difference between availability and reliability. R: Availability - is it there?			

	Reliability - was it there when you needed it? It's based on % of minutes a network is available – availability being planned and unplanned. Basically the number of times the network fails. [The panel noted the update on the proposed changes to the STPIS V5 and the implications for Powerlink's future revenue]			
	Building blocks of Revenue Proposal – Ian Lowry, Revenue Reset Leader Building blocks of Revenue Proposal including application of AER benchmarking. **Discussion** • ~30% real reduction in regulated revenue in the first year • First year of period delivers 2.5% ($48) reduction in the average residential households annual electricity bill, with CPI increase in following years • Significant reduction in WACC from 8.61% to ~ 5.90% (the basis of Powerlink's current revenue modelling). • Capex spend in current period expenditure ~50% lower than 2012 allowance. Next period expenditure a further 35% lower than expenditure in current period. • Forecast total opex lower (~5%) than allowance in current period. Essentially no real growth in opex over next period. Q: How do you determine whether the base year is efficient? R: There is a three step process: 1. Costs per year and non-recurrent costs (e.g. large one-off costs come out) 2. Look at long term trends and anomalies in those trends 3. Independent benchmarking – AER measures and compares with others and our own performance over time. Powerlink has removed around 11% of actual operating expenditure from the base			

	year, reducing from slightly over $220m to $200m. C: AER guideline says what it does for a reason; it looks at benchmarking to see what an efficient year is. If the AER decide a base year is not efficient, it can derive its own view of what was an efficient year. Q: Efficient is a relative not absolute concept then? R: No, it's relative to other businesses and relative to the individual business itself over time. Q: What is the assumption on labour productivity? R: We've received independent advice on labour price growth. We are aligning with the approach adopted by the AER in most of its recent decisions. Q: Are customers paying more because of restrictive industrial arrangements? R: Opex isn't just staff costs, also includes other components such as materials and contracted services. The forecast needs to reflect efficient operating costs. Q: If decreasing utilisation of the network means assets are having longer lives, is there adjustment for declining utilisation in high growth environment? R: Important to note that transmission line assets will run exactly the same whether they're at 20% utilisation or 80% - it doesn't change. That non-load driven reinvestment type work has made up the bulk of the five year investment program plus LNG connections. We are looking at a significant reduction in capex in that time. We've also moved away from like for like replacement of assets – using refit work to get more out of the network for longer where economic. R: If reinvesting in 40-year old assets with flat demand growth and no enduring need, we haven't done like for like. When making reinvestment we make sure we've looked at other options.			

	[The panel noted the very useful update on the building blocks of Powerlink's future revenue proposal.]			
	AER 2015 Annual Benchmarking Report Q: Will you adjust your submission in January to take into account the AER's benchmarking report? R: It's possible we will adjust our submission. R: We have made submissions to the AER's benchmarking report, seeking for them to consider adjusted data. We provided that adjusted data to AER that we think better reflects Powerlink's position. Consistency of interpretation is what we're seeking and engaging them to put as much context in the report as possible. Q: On adjusted data if Powerlink sits mid-range against other TNSPs, should it be aiming for the efficient frontier? R: AER acknowledge they don't inherently adjust for locational factors – consistency of data is important. R: Need to recognise that benchmarking is only one of a number of factors we need to consider. The same goes for the AER. Our Revenue Proposal needs to reasonably reflect prudent and efficient expenditure, including cost inputs, to meet our regulatory requirements. C: Comments made on level of information included in RIN documents and the complexity with working out what they mean.	**Send Annual Benchmarking Report to Panel members**	Sent – Friday 20	
	Feedback influence on Revenue Proposal **Ian Lowry, Revenue Reset Leader, Gerard Reilly, Revenue Reset Stream Leader, Jenny Harris, Group Manager Network Regulation**	**Come back to panel on pricing discussions**		

	Key engagement activities – Gerard Reilly, Revenue Reset Stream Leader C: Want to discuss the key themes of feedback we've received and demonstrate what we have done with it. Powerlink is committed to continue engagement into the future and continue to improve our decision making. Talk you through the inputs you've had to decision making around capex changes and opex in terms of cost reductions. **Capex, Opex, Demand & Energy Forecasts, Rate of Return – Ian Lowry, Revenue Reset Leader** C: Mixed views on benchmarking with some saying need independent oversight and others saying not needed. Q: Are you proposing an opex pathway that would make Powerlink the leader? R: It's difficult to tell who is at the frontier at the moment. Our focus is on ensuring our forecast is prudent and efficient and we are using the benchmarking to consider how we have performed over time. Q: Can understand other TNSPs aren't operating in tropical climates and dealing with cyclones etc. but all TNSPs have their own individual factors to consider. R: We've been doing our best on benchmarking, and we acknowledge it's not easy for the AER either. Every TNSP has their own unique operating factors which given the small sample size makes relative comparison challenging. C: Concerns raised that if direct comparisons are difficult are inefficiencies being hidden? R: Some use benchmarking from AER, others don't. Need to analyse the data to see where clear differences in interpretation are. **Pricing update – Jenny Harris, Group Manager Network Regulation**	**down the track.**		

	C: Clear message we've received is price is important. We have had mixed views from stakeholders in submissions on the potential pricing changes. Q: Have you decided to stick with the AER's estimates on WACC? R: Yes, we put that out to stakeholders back in July, in 2-page WACC overview sheet. That is, to follow the AER's Rate of Return Guideline approach. But, we still got independent advice on this. [Panel was pleased with the above response and commended Powerlink on adopting this approach]. C: In terms of a pricing update, we've sought customer views on a range of matters and we will interact with customers further on some things going forward. We held a webinar and had a number of questions out of that and had direct customer interactions in October/November. That includes seven written submissions on our pricing consultation paper Q: What sort of comments did you get on the 50/50 locational split? R: There were varying flavours to the comments. Some supported, some did not, some made no comment. For some it was about changing to move to part locational, it means different things to different parts of the state. We will commit to further investigate some aspects and will come back to the panel once we've sought feedback from other Transmission Network Service Providers (TNSP) and Distribution Network Service Providers (DNSP), and when we have a better sense of our position e.g. whether there is a strong view on a Rule change to move from Cost Reflective Network Pricing (CRNP) to LRMC. If TNSPs decide a rule change is a good approach we will come back and consult with you. Q: What timeframe to look at some of these things?			

	R: Would hope to talk and do more work with other TNSPs on some of these things in the next 6 months, especially on Long Run Marginal Cost (LRMC). Will talk to customers on other things as part of business as usual.			
	General discussion on when the next panel meeting would be held in 2016 (no decision made) and information provided regarding submission of Powerlink's revenue proposal in January. **Meeting closed at 4pm**			